



MAPPING THE

REGION'S ECONOMY

1. The Economic Base

The rate of job growth in the SCAG economy is primarily determined by growth in the region's economic base. Basic industries—the industries included in the region's economic base—make a substantial share of their sales to customers outside of the region. That is, they export goods and services to customers elsewhere in California, throughout the nation, and throughout the world. Selling outside the boundaries of the region is what brings new income in.

To be sure we are clear on terms, note that the word “industry” is used here in a generic sense, to denote any type of productive activity. That is, “services” provided by a business qualify as industries under this definition. Examples would be the banking industry, health care industry, etc. However, not all services industries are “basic” in the sense of exportable (able to be sold outside the region). Finally, note that exportable does not necessarily mean consumed outside the region. Tourists consume our goods and services within the region, but the tourism industry is nevertheless “basic” because the money tourists spend comes from outside the area.

Aircraft, apparel, motion pictures, computer services, fabricated metals, and amusements are all key industries in the region's economic base. Other parts of the economic base include the rest of manufacturing, air transportation, parts of the wholesale trade, hotel, and business services industries, as well as part of the services provided by the region's hospitals and universities, which serve people from outside the region.

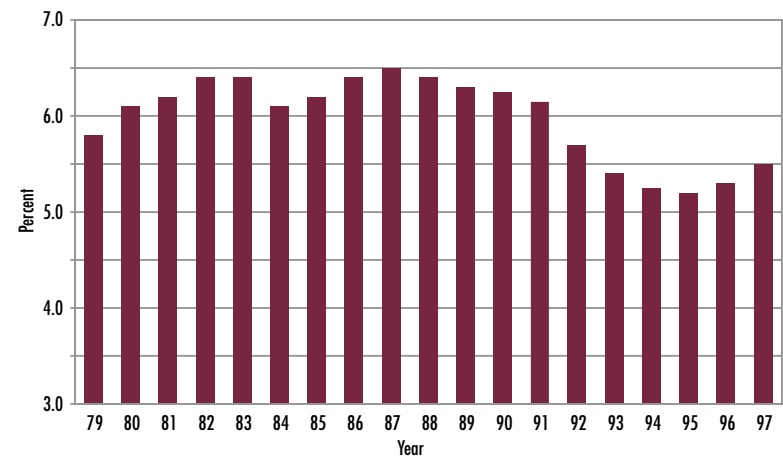
Manufacturing activities have been and will continue to be an important part of the SCAG region economic base. Manufacturing activities create both direct production jobs and jobs in many related industries. And, starting in 1996, for the first time since 1987 the region's manufacturing employment level increased as a percentage of the U.S. total (Figure 2).

This is particularly impressive given both the recent regional recession as well as the national trend, which saw nearly 21 million jobs created from 1986 to 1996, while during that same period the number of manufacturing jobs fell by almost one million. At the national level, although there are no manufacturing industries on the leading job growth list, manufacturing leads all other sectors in projected gains in production.

Although Southern California is the largest manufacturing region in the country, manufacturing is not the only base sector with future opportunities. Non-manufacturing activities, like tourism, entertainment, and professional services, have become a significant component of the SCAG region economic base. As shown below, most of the job growth in the region's economic base has and will continue to occur outside of manufacturing.

Figure 2

SCAG Region Share of U.S. Diversified Manufacturing



Source: CCSCE

To reiterate, the SCAG region's economic base is the appropriate focus for developing economic strategies:

- Exportable goods and services are subject to intense competition. A regional competitiveness strategy means being competitive in basic industries. Growth in jobs and sales in the region depends on how well the region's firms and workers compete—often with locations throughout the world. People involved in basic industries—whether in manufacturing apparel, filming a motion picture, or deciding where to vacation—have a choice.
- Growth in the economic base will determine the opportunities for job growth and increases in income in the rest of the economy. Prospects for employment growth in supporting activities like retail trade, medical services, construction, and local education depend on employment expansion in basic industries. Regions with the fastest growing economic bases have the highest rates of overall employment growth.

a. The Region's Changing Economic Base

The number of jobs in the SCAG region's economic base expanded by more than 50 percent between 1972 and 1998, and most of the new jobs were created in the region's service sectors—not in the production of goods. As shown in Figure 3, from 1994 to 1998, Tourism and Entertainment represented the fastest-growing regional sector; moreover, during the same period diversified manufacturing,

transportation and wholesale trade added nearly 160,000 new jobs. All of these sectors benefited from increases in foreign as well as domestic purchases.

Of the two additional large manufacturing groups shown in the table, high technology manufacturing experienced modest growth, while defense related employment continued to decrease, albeit at a slower rate.

Figure 3

SCAG Region Jobs By Major Industry Group (Thousands of Jobs)

	1990	1994	1998	Numerical Change 1990-94	Numerical Change 1994-98	Percent Change 1994-98
Professional Services	570.7	497.7	526.6	-91.0	46.9	9.8%
Diversified Manufacturing	797.3	706.0	796.7	-91.3	90.7	12.8%
Transportation & Wholesale Trade	567.8	519.5	588.4	-48.3	68.9	13.3%
Tourism & Entertainment	254.5	261.1	311.9	6.9	50.5	19.3%
Defense Related	290.2	170.7	155.8	-119.5	-14.9	-8.7%
Resource Based	87.4	80.5	71.7	-6.9	-8.8	-10.9%
High Technology Manufacturing	127.3	100.3	107.7	-27.0	7.4	-7.4%
Total	2,695.2	2,318.1	2,558.80	-377.1	240.7	10.4%

Source: CCSCE, EDD

b. The Shrinking Role of Defense

The defense-related sector of the region's economic base is no longer large in terms of job levels compared with other sectors. In fact, since 1990 industry job levels have declined almost 50 percent, with a loss of nearly 140,000 jobs (Figure 4).

Southern California is no longer the national focal point of manufacturing and assembly of large aerospace platforms such as military and commercial aircraft, expendable rockets and missiles; instead, the region is now competing against a number of states with similar aerospace and defense capabilities. Furthermore, according to a recent study by A.T. Kearney, The Los Angeles Regional Technology Alliance (LARTA) and the Los Angeles Economic Development Corporation (LAEDC), industry consolidation has led many of the industry's corporate headquarters and top-management teams to leave the state, resulting in fewer industry and personal ties to the local community.

Figure 4

Los Angeles Basin Aircraft, Space and Defense (Thousands of Jobs)

	1986	1990	1998e	2005f
Aircraft	143.2	142.5	76.4	78.5
Shipbuilding	5.2	2.8	2.3	2.2
Missiles, Space	30.0	33.0	12.4	9.5
Search & Navigation Equipment	116.3	79.4	45.6	36.0
Federal Civilian Defense	34.9	32.5	19.1	18.0
Total Sector	329.6	290.2	155.8	144.2

Source: CCSCE, EDD e=CCSCE estimate

f= CCSCE forecast

Although the aerospace and defense industry has undergone a wrenching transformation, the industry is still a significant regional employer and is now playing an increasingly important role in the rapid convergence of information driven industries. This is most evident in an increase in business ventures that leverage the unique synergies among aerospace and defense, transportation and information technology, telecommunications and entertainment. As the only region in the country, if not the world, that possesses both the high tech industrial base as well as the creative or cultural industrial complex, Southern California is uniquely positioned to leverage these assets and meet the growing demand for information related products and services.

Additionally, regional aerospace collaboratives have recently sought to work together to address critical industry issues. The Aerospace Alliance of the Antelope Valley was created as an industry group of all three major aerospace primes (Boeing, Lockheed Martin, and Northrop Grumman), Edwards AFB, and Tracor. Working jointly on projects, they share equipment, space, and staff to reduce costs and keep their costs competitive.

c. A Growing Role for International Trade

Foreign trade has emerged as a major sector in the region's economic base. The volume of merchandise trade through the Los Angeles Customs District (LACD) has grown from \$6.2 billion in 1972 to \$185.9 billion in 1997. From 1987 to 1997, total trade, imports and exports combined, increased by an average of 14 percent per year compared to a 13.6 percent annual rate for the nation.



The impact of international trade on the region is even larger than these statistics suggest. Trade in services, which is not included in the Customs District data, is growing even faster than trade in goods. For every \$3 in goods trade, there is now an additional \$1 worth of trade in services such as banking, insurance, and tourism.

A precise count of jobs associated with foreign trade is not available, but they are numerous

Figure 5

Regional Employment Supported by Exports to:

Country	Regional Employment
Japan	142,472
Canada	58,937
South Korea	54,754
Mexico	52,720
Taiwan	47,874
United Kingdom	46,308
Germany	37,895
Singapore	32,390
Hong Kong	27,469
Malaysia	23,384

Source: CSULB, 1998

and spread throughout most sectors of the regional economy (Figure 5). The rule of thumb used by the U.S. Department of Commerce is that for every additional \$1 billion of U.S. exports, 19,000 jobs are created. International trade creates jobs in three major ways:

- *Through the manufacture of goods in the region*—Leading exports from the region in 1997 included Transportation Equipment (\$8.9 billion), Electric and Electronic Equipment (\$5.7 billion), Industrial Machinery and Computers, (\$5.6 billion), Scientific and Measurement Instruments (\$2.6 billion), Chemical Products (\$1.8 billion) and Food Products (\$1.7 billion).
- *Through goods delivery*—The \$185.9 billion in trade in 1997 supported thousands of jobs in the trucking, wholesale trade, railroad, shipping, and air cargo industries.
- *Through trade in services*—Air travel and accommodations for tourist and business travelers is the largest area of trade in services. However, many other areas are taking off. Rapidly-growing markets include software and entertainment products (video, music), professional services, and education and health (foreign visitors

using the region's universities and medical centers).

The value of exports rose from \$23.7 billion in 1987 to \$74.9 billion in 1997—a 212 percent increase (Figure 6). Other things equal, export growth depends more on changes in real economic activity abroad than it does on real growth in the region. For example, the slowdown in export growth through LACD in the 1990-92 period reflected weakening GDP growth in Japan, other Asian economies and Europe as well.

Los Angeles County is the second largest goods export production center in California. With more than \$25.8 billion in 1997 exports, the county ranked fifth nationally behind San Jose, New York, Seattle, and Detroit. Orange County ranks fourth among California metro areas, while Riverside/San Bernardino and Ventura recorded the highest regional growth rates between 1993 and 1997 (Figure 7).

As shown in Figure 8, the bulk of the region's exports go to Asian countries. In 1997, for example, Japan bought \$7.7 billion from the region while other Asian countries accounted for an additional \$10.3 billion in exports. Europe was the next largest export market (\$7.7 billion) followed by Mexico (\$4.3 billion) and Canada (\$3.8 billion).

Figure 6

**Southern California Foreign Trade Value of Exports and Imports (1987-1997)
(\$ Billions)**

	Exports	Imports	Total
1987	\$23.7	\$53.9	\$77.6
1990	\$42.1	\$64.6	\$106.7
1997	\$74.9	\$111.8	\$185.8

Average Annual Growth Rate 1987-1997

Los Angeles	21.2%	10.7%	13.9%
California	23.1%	13.6%	16.8%
United States	17.2%	11.4%	13.6%

Source: U.S. Department of Commerce

The pattern of export and import growth through the Los Angeles Customs District over the past decade reflects trends in merchandise trade throughout the country. In fact, the LACD has steadily increased or held its share of U.S. trade—on both the export and the import side of the ledger—since the early 1970s.

International trade will remain a key component of the region's changing economic base. Methods to enhance the region's competitiveness as a center for international trade and investment are a significant component of the regional economic strategy. In addition, the region is a major center for deal making. Foreign trade requires financial, legal and other professional services. The SCAG region has developed into a major international business and financial center during the past two decades.

d. Tourism: Major Job Generator

Tourism is one of the most important growth sectors in the region's economic base. On the rise steadily since the recession, tourism industry growth has been fueled by gains in disposable income throughout the Pacific Rim and the region's world class attractions such as Disneyland and Universal Studios.

From the employment highs of 1990, tourism has been making steady gains. Amusement industry jobs have increased by 7,900 since 1990 to reach a level of 93,500 in 1998, and, although hotel employment is still 8,400 below 1990 levels, recent occupancy levels and room rates are at their highest since 1990. Tourism creates employment in other sectors as well, such as restaurants, retail stores, car rental agencies and air travel.

Figure 7

**Exports Produced in the SCAG Region
(\$ Millions)**

Metro Area	1993	1997	% Change
Los Angeles	20,014	25,816	29.0%
Orange	5,653	8,798	55.6%
Riverside/San Bernardino	1,094	2,068	89.1%
Ventura	640	1,129	76.3%
Total	27,401	37,812	38.0%

Source: International Trade Administration

Figure 8

Exports Produced in the Region 1997 (\$ Millions)

Destinations	Los Angeles	Orange	Riverside/ San Bern.	Ventura	Region Total
NAFTA Countries	4,950	2,442	496	211	8,099
Mexico	2,831	1,024	261	172	4,288
Canada	2,118	1,418	235	39	3,810
Japan	5,907	1,393	295	142	7,737
Other Asian Countries	7,302	2,314	407	321	10,344
Europe	4,682	2,013	662	308	7,665
All Other Countries	2,976	637	208	147	3,968

Source: International Trade Administration, Exporter Location Series.

Over the last ten years, travel and tourism has evolved from an emerging sector to an established leader in a modern services economy. Growing nationally from a \$26 billion industry in 1986 to a \$90 billion one a decade later, travel and tourism's export contributions to the U.S. economy have grown nearly 250%. In that time, travel and tourism has taken its place as the number one services export, producing a trade surplus every year since 1989.

Unfortunately, quite often, international visitation to the United States is not thought of as an export. Nothing could be further from the truth. With just under \$21 billion in inbound passenger fare receipts in 1997, visitor trip expenditures injected almost \$70 billion directly into the U.S. economy. Each international visitor to the United States represents an

average export value of \$1,500, with 28 percent of their expenditures going to lodging, 18 percent to food service, 10 percent to entertainment, 30 percent to retail trade and 13 percent to local transportation. In 1997, a record 46.5 million international visitors made America their destination of choice, up seven percent over 1996.

Figure 9

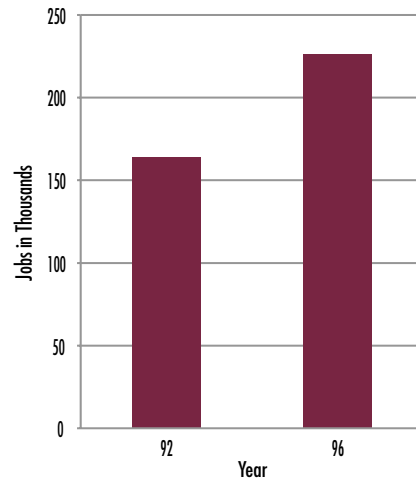
Overseas Visitors to Selected U.S. Regions, 1997

City/Region	1997 Market Share	1997 Visitation (000)
New York	20.7%	5,008
SCAG Region	19.8%	4,791
Miami	13.7%	3,315
San Francisco	11.8%	2,855
Orlando	11.5%	2,782
Oahu/Honolulu	10.2%	2,468
Las Vegas	8.7%	2,105
Metro DC	5.9%	1,427
Boston	4.7%	1,137
Chicago	4.5%	1,089
San Diego	3.4%	823

Source: Tourism Industries, International Trade Administration, May 1998

Figure 10

SCAG Region Motion Picture & Video Production Total Employment



Source: MPAA, 1998

From a SCAG regional perspective, the impact of the tourism industry is enormous. Based on 1997 market share data from the U.S. International Trade Administration (shown in Figure 9), the SCAG region receives nearly \$14 billion dollars in export spending from overseas visitors, an amount that creates an estimated 266,000 jobs.

What these statistics demonstrate is that international travel to the United States is an export just like the sale of our agricultural products,

automobiles or consumer goods overseas and that helps boost the nation's GDP. As a result, inbound tourism has an important impact on regional job creation.

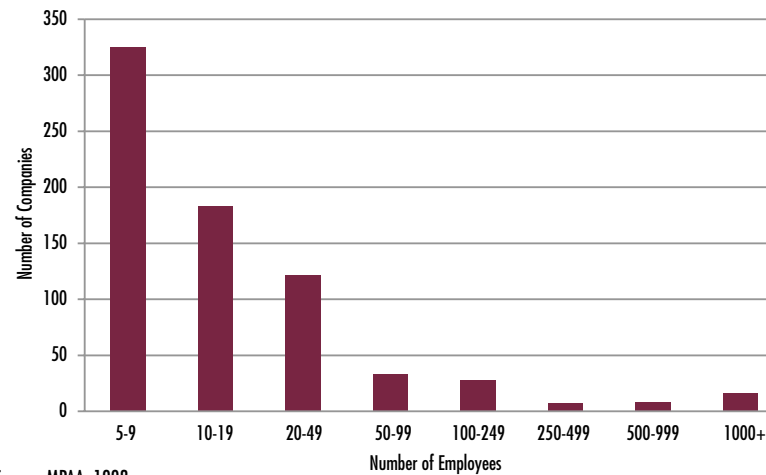
e. Motion Picture and Television Industry

For nearly a decade, the motion picture industry has been booming in California. With 95 percent of the industry located in the SCAG region, motion pictures and television have played a critical role in leading the region out of recession. Film starts in California surged in 1996 and have remained at near record levels since 1997.

According to a recent report from the Motion Picture Association of America (MPAA), between 1992 and 1996 entertainment production employment—including motion pictures, commercials and television—grew from 164,000 to 236,000, an enormous 38 percent increase (Figure 10). This pace of growth, over 90 percent of which took place in Southern California, was nearly seven times that of the rest of the state economy, faster even than the expansion of the high-tech sectors in Silicon Valley. Pay also increased at a high rate; production salaries jumped \$8,000 between 1992 and 1996, while average salaries statewide grew by less than \$3,000. Overall revenues jumped from \$16 billion to \$27.5 billion—a 69 percent increase.³

Figure 11

Size of Motion Picture/Video Production Companies



Source: MPAA, 1998

³ "The State of the Industry: The Economic Impact of the Entertainment Industry on California," Motion Picture Association of America, Los Angeles, April 1998, pp. 7-8, 16, 19.

The resurgence of the entertainment industry through the recession and beyond establishes a critical pattern in the region's recovery; it has largely been the product of networks of firms, mostly small, working together within an intense regional collaborative structure (Figure 11). Similar to the Silicon Valley, the Hollywood entertainment complex is uniquely dependent on the close cooperation between large corporations, such as studios, and teams of independent contractors, freelance artists, and craftspeople, in a manner not seen elsewhere. Among the industry's employees, only 80,000 work directly for studios and independent producers; 146,000 labor as freelancers, writers, directors, or craft specialists.

In modern America few industries are as thoroughly dominated by one region as entertainment is by Southern California. The region accounts for roughly 80 percent of prime time television production, 70 percent of commercial production and, despite well-publicized efforts by several other states and Canadian provinces, now accounts for more than 75 percent of all film starts, up from only two-thirds in 1992. The area has far more soundstage space, more production revenue, and more employees than all its competitors put together. By the middle of 1998, new sound stages were under construction in Hollywood, Manhattan Beach, and Santa Clarita, as well as on several of the existing studio lots. Others were being planned for both the Playa Vista area near Marina del Rey and in downtown Los Angeles. In total, it is estimated that as many as 71 new soundstages could be built in the region over the next few years.⁷

⁴ Friedman, *New Economy Project*, draft, *op. cit.*, p. III-6.

⁵ The State of the Industry: The Economic Impact of the Entertainment Industry on California, *op. cit.*, p. 14.

⁶ *Ibid.*, p. 13.

⁷ Frank Swertlow, "Demand Remains High for Modern Production Space," *Los Angeles Business Journal*, January 26, 1998, p. 39.

⁸ "Rebuilding LA's Urban Communities," Final report of RLA, Milken Institute, Santa Monica, 1997, pp. 27-29.

f. Diversified Manufacturing: A Traditional Regional Strength

After dramatic declines in the early 1990s, the region's manufacturing economy has recently begun a sustained recovery. Between 1993 and 1998, more than 64,000 manufacturing jobs were added across the region in a host of industries—apparel, furniture, toys, industrial machinery and biomedical devices. Moreover, there has been a sharp transition in the composition of the region's diversified manufacturing base away from traditional heavy industry sectors towards industries that rely upon unique design elements and craft skills (Figure 12).

Figure 12

SCAG Region Diversified Manufacturing - 1998

Diversified Manufacturing	Jobs (Thousands)	Change Since 1993
Apparel	128.7	20.3%
Furniture	44.4	27.2%
Printing, Publishing	74.2	-7.6%
Chemicals	39.5	3.1%
Rubber & Plastics	55.5	10.1%
Fabr. Metal Products	84.0	10.2%
Non High Tech Machinery	129.1	21.6%

Source: CCSCE

These emerging manufacturing networks, comprised of designers, vendors, suppliers and customers, are typically driven by newer, often times ethnically-owned, entrepreneurial firms that are reliant upon close cooperation between suppliers, designers, and customers.

Some firms are quite small and highly specialized; for example, a 1997 study by Rebuild Los Angeles (RLA) noted in Los Angeles County alone there were 1,100 firms manufacturing ethnic foods, employing 50,000 people. These companies depend heavily on ties to specific communities and relations between various producers, distributors, and wholesalers to be economically viable.⁸

The largest diversified manufacturing industry in the region is apparel and textiles, with 146,500 jobs in 1998. As the second largest apparel-manufacturing center in the country, the region accounts for 80% of the state's apparel and textile industry and has added more than 30,000 jobs in the last four years alone. This growth is particularly impressive given that nationwide, the industry has lost more than 500,000 jobs since 1979.

g. Professional Services: One of the Region's Biggest Employers

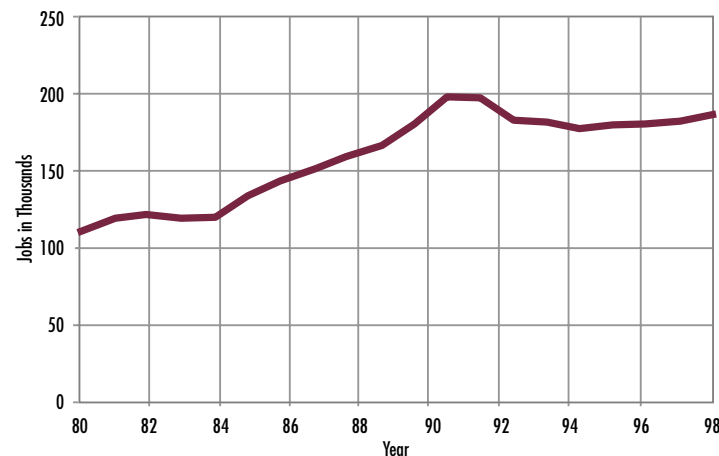
Professional service industries—including job categories such as computer, legal, engineering and management services—have become one of the largest sectors in the region's economic base with more than 526,000 jobs in 1998. Moreover, professional services provide the largest component of potential future job growth in the region's economic base. In 1972, for example, there were two jobs in fabricated metal products for every job in the engineering and management services sector; in 1997 that ratio was reversed. Further, average pay in the engineering and management services industry is high: \$48,700 in 1997 (Figure 13).

The SCAG region serves markets throughout California, the nation, and worldwide in industries such as software, engineering and management services, and portions of the legal services, business services, and higher-education sectors.

The competition for professional service jobs, usually paying high wages, points out the challenge in developing a competitiveness strategy for the region. While mature manufacturing industries often rank labor and other business costs as the dominant location factor, professional service industries more often value a highly educated work force and quality of life considerations such as good schools, efficient transportation, a healthy environment, and world class recreation and entertainment opportunities.

Figure 13

SCAG Region-Engineering & Management Services Employment



Source: CCSCE, 1998

h. High Technology: Jobs for the Future

National and worldwide demand for the products of technology will make sales of technology-based goods and services a leading growth market well into the next century. With the acceleration in technological advances and innovation in computers and the heightened demand for knowledge-based services, the role of high-technology industry development is becoming increasingly important in the overall growth rate of metropolitan regions. Due to a high multiplier effect caused by above average wages, one recent study published by the Wharton Econometric Forecasting Association (WEFA) indicates that the future economic success of regions will be heavily dependent on their ability to attract, nurture, and expand high-technology based industry clusters⁹ (Figures 14 & 15).

Traditional measures of high-technology manufacturing included the computer, electronic components, and instruments sectors. Now, however, growth is also becoming significant in other markets such as environmental technology, bio-tech, and advanced transportation technology. With a rich history and resource base to build from, Southern California's technology industries are uniquely positioned to continue their pattern of leadership and innovation.

Although high tech is not a specific industry sector, normally included within this definition are the following sectors: Software and Information Technologies, Multimedia, Electronics, Medical Devices and Biotechnologies, Telecommunications, Advanced Transportation Technologies, Environmental Technologies.

⁹ Ross C. DeVol, "Metro Growth: How Dependent on High-Tech Success?", Wharton Econometric Forecasting Association, August 1997, p. 1-2.

Figure 14

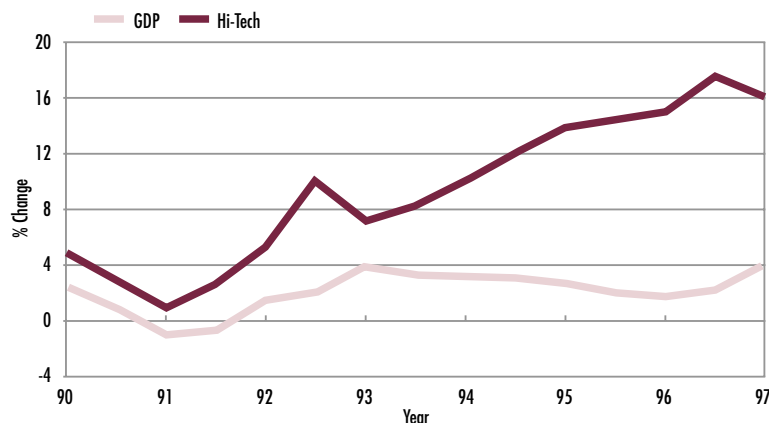
WEFA Top-100 Metros by High-Tech Concentration (Through 1996)

Rank	Metro	High-Tech Jobs (ooo's)
1	Los Angeles-Long Beach, CA PMSA	297.2
2	Washington, DC-MD-VA-WV PMSA	241.9
3	Boston, MA-NH PMSA	240.8
4	San Jose, CA PMSA	236.7
5	Chicago, IL PMSA	214.4
6	Lowell, MA-NH PMSA	148.1
7	Fitchburg-Leominster, MA PMSA	147.4
8	Dallas, TX PMSA	130.2
9	Philadelphia, PA-NJ PMSA	128.4
10	Orange County, CA PMSA	112.5
11	New York, NY PMSA	101.7
12	Minneapolis-St. Paul, MN-WI MSA	101.2
13	Atlanta, GA MSA	97.9
14	Detroit, MI PMSA	86.2
15	Houston, TX PMSA	82.9
16	San Diego, CA MSA	79.2
62	Riverside-San Bernardino, CA PMSA	19.3

Source: Wharton Econometric Forecasting Association, 1997

Figure 15

High-Tech is Accounting for a Rising Share of U.S. Economic Growth



Source: WEFA, 1997

i. Agriculture: Ranked Among Leading Regions Nationwide

Since the SCAG region's industry base is so large and diversified, the contribution and economic importance of resource-based industries, agriculture in particular, to the economies of certain sub-regions is sometimes overlooked. In addition, its enormous contribution to exports is much more significant than its contribution to gross regional product.

According to both the 1992 and the 1997 Census of Agriculture, three SCAG region counties—Riverside, Imperial, and Ventura—were ranked among the top 20 counties nationwide in terms of market value of agri-

cultural products sold (Figure 16). In addition, agriculture provided almost 30 percent of Imperial County's total wage and salary employment in 1998.

Future prospects for SCAG region agricultural exports have been enhanced by several trade agreements reached in 1993, including, in addition to NAFTA and the completion of the Uruguay Round of the GATT, a number of market-opening agreements with certain Asian countries. Export opportunities should continue to expand in the future since SCAG region farmers are well-positioned in terms of products and geography to benefit from the world's fastest growing agricultural export markets in Latin America and Asia.

Figure 16

Top U.S. Counties: Market Value of Agricultural Products

County	Value (\$1,000)
Fresno, CA	2,772,785
Kern, CA	1,968,513
Tulare, CA	1,921,381
Monterey, CA	1,749,747
Weld, CO	1,286,636
Merced, CA	1,273,475
Stanislaus, CA	1,208,504
San Joaquin, CA	1,179,706
Riverside, CA	1,047,525
Yakima, WA	873,495
Palm Beach, FL	872,877
Imperial, CA	850,351
Ventura, CA	845,613
Grant, WA	804,252
Lancaster, PA	766,743
Duplin, NC	746,449
Sampson, NC	732,859
Kings, CA	693,677
Castro, TX	668,439
Texas, OK	668,024
Maricopa, AZ	664,057
Santa Barbara, CA	659,741
Deaf Smith, TX	656,636
San Diego, CA	632,731
Madera, CA	627,610
San Bernardino, CA	617,833

Source: 1997 Census of Agriculture

2. The 1990-1993 Recession and the Foundation for Recovery

The 1990-93 recession was the SCAG region's biggest economic setback in sixty years; in particular, Los Angeles County was especially hard hit, alone accounting for 500,000 of the 550,000 regional jobs lost during the recession. Defense, construction, and retail spending declines explained much of the region's severe recession:

- Regional construction fell between 50% and 75% from 1989 to 1993.
- Between 1990 and 1994, the region lost approximately 100,000 defense industry jobs.
- Real consumer spending fell by 15% between 1990 and 1993.
- The region's share of total U.S. jobs peaked at 5.7% in 1989; by 1995, the region had only 5.1% of the national jobs—the lowest share since 1972.
- The regional share of manufacturing jobs declined from a 1989 high of 5.3%, to a 1994 low of 4.7%.

- Residential building permits declined from 115,000 in 1989 to 28,700 in 1993—a 75% drop.
- The region lost 68,000 jobs in construction and an additional 30,000 in related industries such as wood products, furniture, stone, clay and glass.
- Inflation-adjusted taxable sales fell from \$155.5 billion in 1990 to \$132.2 billion in 1993—a decline of 15% in only three years.

Although the region experienced a wrenching recession, the fundamental strengths of the regional economy have enabled it to recover

and gain strength. Job levels in Orange, Riverside, San Bernardino and Ventura Counties have all passed pre-recession levels, and, although Los Angeles County has not yet regained all the jobs lost during the recession, it has nonetheless had impressive growth, adding nearly 245,000 jobs between 1994 and 1998 (Figure 17).

As was noted earlier in this report, to a large extent, driving the regional recovery were job gains in the entertainment and tourism industries, diversified manufacturing, including textiles, apparel and toys, as well as growth in business services and foreign trade.

Figure 17

Southern California Job Growth Nonagricultural Wage & Salary Jobs

Metro Area	1994	1998	Total	% Job Growth
Los Angeles	3,701,900	3,946,700	244,800	6.6%
Orange	1,126,800	1,295,300	168,500	15.0%
Riverside-San Bernardino	751,300	875,200	123,900	16.5%
Ventura	233,300	251,400	18,100	7.8%
Southern California Basin	5,813,300	6,368,600	555,300	9.6%

Source: EDD, seasonally adjusted by CCSCE

As noted by California economist Stephen Levy, Director of the Center for Continuing Study of the California Economy (CCSCE), the SCAG regional economy possesses a strong base of assets that should further position the region for continued growth. Long term strengths include:

- A large domestic market (regional population base and taxable sales) and access to both Western U.S. markets and the Pacific Rim (Figure 18).
- The nation's largest port and airport complex.
- A large financial services complex serving both domestic and international markets.
- The nation's largest tourism and entertainment complex.
- The nation's biggest high tech complex built around the region's educational institutions, large pool of skilled labor and venture capital industry.

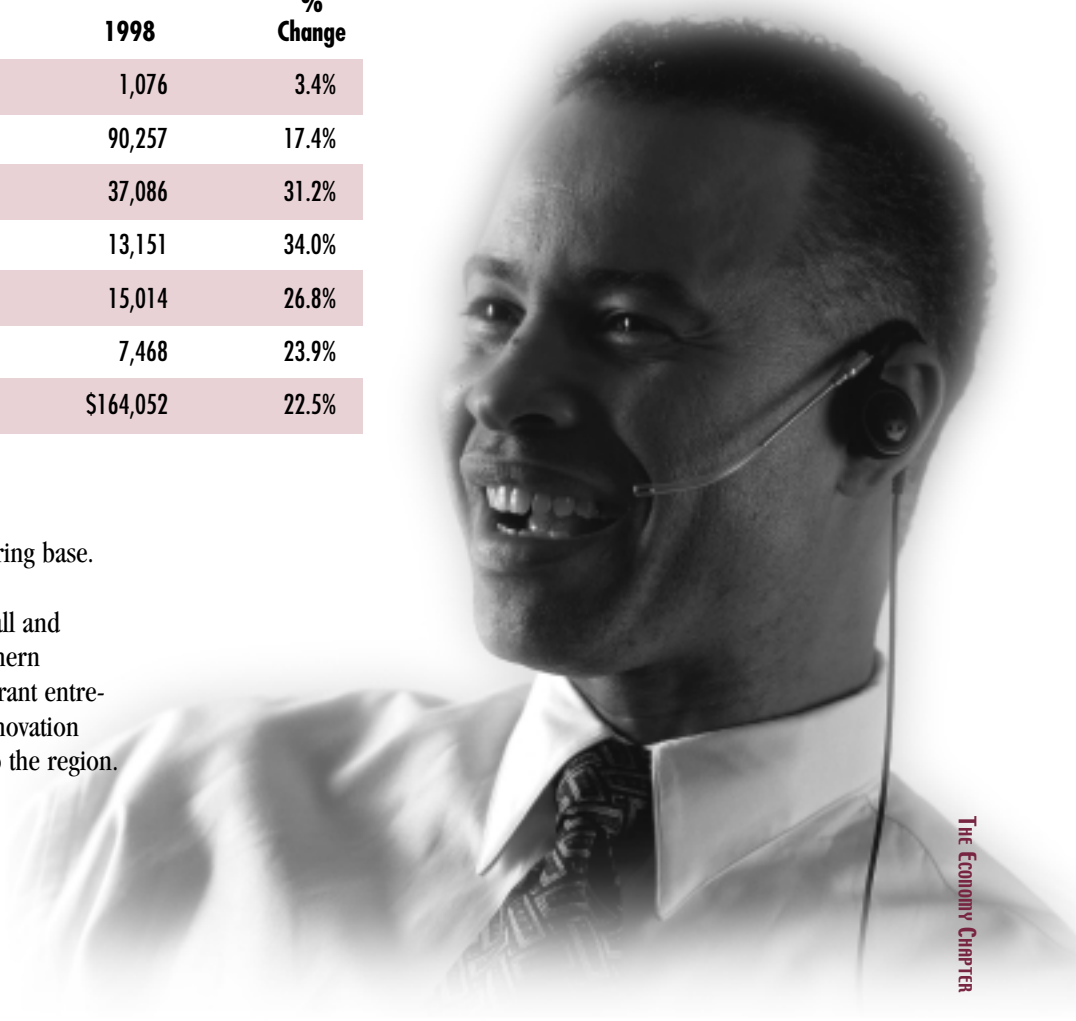
Figure 18

SCAG Basin Taxable Sales (\$ Millions)

County	1994	1998	% Change
Imperial	1,041	1,076	3.4%
Los Angeles	76,899	90,257	17.4%
Orange	28,276	37,086	31.2%
Riverside	9,815	13,151	34.0%
San Bernardino	11,844	15,014	26.8%
Ventura	6,026	7,468	23.9%
SCAG Region	\$133,900	\$164,052	22.5%

Source: California Board of Equalization

- A large and diverse manufacturing base.
- A growing number of new, small and medium sized businesses. Southern California is attractive to immigrant entrepreneurs, who bring energy, innovation and international connections to the region.



3. Regional Transitions

It is no longer accurate to think of Southern California as a defense industry-dominated region. In fact, it would be erroneous to think in terms of any single industry dominating the regional landscape. Although the region still maintains the largest concentration of manufacturing jobs in the nation, to a large extent, job growth has increased significantly in more knowledge intensive industries. For example, in 1972 there were three jobs in aircraft for every one job in motion picture production. By 1997, there were 65,000 more jobs in the motion picture industry than in aircraft manufacturing. Other knowledge-intensive industry sectors that have emerged through the recession include a burgeoning business services sector, the multimedia industry, and a software industry that has added 20,000 new jobs during the recent recovery.

a. Industry Change/Job Skills

These industry transformations have caused a shift in employment demands. The global sweep of technologies and the evolving employment needs of an increasingly knowledge-based economy have created a growing demand for highly skilled workers. In the past ten years alone, employment in the U.S. computer and software industries has almost tripled. But demand for workers who can

Figure 19

Southern California: County Population Demographics, 1997

	Los Angeles	Orange	San Bernardino	Riverside	Imperial	Ventura
White non-Hispanic	34.1%	58.1%	55.9%	61.4%	24.0%	62.2%
Black	10.2%	1.7%	8.6%	5.3%	3.7%	2.2%
Hispanic	43.1%	27.7%	30.1%	28.6%	69.9%	29.3%
Asian	12.3%	12.1%	4.7%	3.8%	1.5%	5.7%
Native Americans	0.3%	0.3%	0.6%	0.8%	0.9%	0.5%

Source: California Department of Finance

create, apply and use information technology goes beyond traditional high-tech industries, cutting across manufacturing and services, transportation, health care, education and government.

A skilled workforce is often cited by executives as the single most important asset a community can provide business. Due to pressures of global competition, shortened product cycle times, and the ubiquitous nature of technology, capital, and infrastructure, the critical difference between success and failure for many companies may be the human resources available. With this in mind, attracting, retaining and training a diverse labor force has become an increasingly important objective for regional economies.

b. Demographic Shifts

Southern California's demographic transformation represents one aspect of the region's globalization (Figure 19). The economic impact of the growing Hispanic and Asian populations was essential to the region's recovery in both retail sales and real estate. In Los Angeles County, for example, the precipitous decline of Anglo consumers since 1960 has been offset in large part by the huge growth in immigrants, who now account for more than 40 percent of the population. In little more than three decades, the Latino population more than tripled, adding almost three million people, while the Asian segment grew more than seven fold, with an increase of more than 800,00.¹⁰ In many areas, such as the San

Gabriel Valley and the industrial cities of Southeast Los Angeles, these groups have helped reinvigorate struggling retail districts. Similarly, large parts of Orange County have also benefited: between 1980 and 1990, Latino buying power increased nearly four-fold and was expected to double again by the year 2000.¹¹

The region's shifting demographics have also been critical to the regional housing market. During the recession, when most potential homebuyers were shying away from the market, Latinos jumped into it in large numbers, buying almost a quarter of a million homes in the five county areas between 1990 and 1995.¹² Roughly half of all Asians and U.S.-born Latinos in the region own their own home while almost one-third of Hispanic immigrants are homeowners.¹³

Immigrants and native-born minorities have played a critical role in developing the region's new network-centered economy. In a variety of industrial fields—garments, food processing, textiles, toys, electronics—they provided much of the workforce and entrepreneurial leadership that created other sets of effective regional networks. A 1994 Los Angeles study found that, among firms in these and similar industries, minorities, predominately Latinos and Asians, accounted for roughly one-third of all managers, two-fifths of research and development workers, and more than two-thirds of production workers.¹⁴ Furthermore, Los Angeles led the nation in the numbers of Asian, Latino, and African-American owned businesses; for Latino-owned firms, Orange County ranked sixth, San Bernardino twelfth, Riverside fourteenth and Ventura twenty-fourth¹⁵ (Figure 20).

Figure 20

Minority and Women Owned Businesses

	Total Firms With Employees	Minority Owned Firms With Employees	% of Total	Women Owned Firms With Employees	% of Total
Imperial	1,201	606	50.5%	0	0.0%
Los Angeles	100,961	33,096	32.8%	24,711	24.5%
Orange	34,825	7,986	22.9%	8,793	25.2%
Riverside	12,600	2,571	20.4%	3,140	24.9%
San Bernardino	13,376	3,206	24.0%	3,291	24.6%
Ventura	8,171	1,552	19.0%	1,961	24.0%
So. Calif.	171,134	49,017	28.6%	41,896	24.5%

Source: 1992 Economic Census

¹⁰ James P. Allen and Eugene Turner, "Ethnic Diversity and Segregation in the New Los Angeles," in *Ethnicity: Geographic Perspectives on Ethnic Change in Modern Cities*, edited by Curtis C. Roseman, Hans Dieter Laux, and Gunter Thieme, Roman and Littlefield, (Lanham, Maryland: 1996), p. 2.

¹¹ US Hispanic Chamber of Commerce.

¹² Dataquick Information Systems, La Jolla, California, 1996.

¹³ Rodriguez, *op. cit.*, pp. 9-10.

¹⁴ Friedman, "New Economy Project," *op. cit.*, p. II-24.

¹⁵ U.S. Census Bureau.

The newcomers, over four fifths of whom are Asian or Latino,¹⁶ also played a key role in the growth of industrial and warehousing activities in Orange County and the Inland Empire. Both areas, like Los Angeles, have experienced rapid demographic change. Once almost overwhelmingly Anglo, for example, Orange County is now one of the most diverse counties in the nation, with nearly one-quarter of its population born outside the U.S.¹⁷ A similar demographic shift has taken place in the Inland Empire.

Coupled with their powerful contributions to the purely regional economy, the role of immigrants in attracting business and investment to the region represents a significant and much overlooked aspect of the new Southland economy. For example, in Los Angeles County alone, there are more than 30 Chinese owned banks playing a critical role in attracting foreign capital as well as financing local entrepreneurs.

c. Regional Decentralization

The SCAG region is geographically dispersed (the region is larger than the state of Indiana), densely populated (the population is larger than Florida's), and as noted, both economically and ethnically diverse. No longer a region dominated by one or two industries or one specific municipality or sub-region, the SCAG area represents one of the most dynamic and complex metropolitan regions in the world.

Similar to development patterns in other metropolitan regions, economic and population growth is occurring faster outside the historical center of the SCAG region—Los Angeles. Whereas Los Angeles County in 1950 contained more than 84% of the regional population, today the county accounts for 60% of the regional population—a percentage that continues to decrease as the surrounding counties grow at a faster rate. Orange County's growth over the same period was nine times as rapid as that of Los Angeles County (Figure 21).

One potential result of this increasing geographic dispersal is lack of regional cohesion. Southern California is now a vast complex of smaller "sub-regional" economies. Over the past several decades, the massive shift of firms and people to the Westside of Los Angeles, the San Fernando Valley, Orange County and the Inland Empire has created a huge archipelago of economic hotspots, many of which see themselves only tangentially connected to the urban core of Los Angeles. One implication of this decentralized growth pattern is an increased difficulty to develop and implement regional economic strategies.

¹⁶ "Migration in the Southern California Region," Southern California Association of Governments, November, 1995, p. 6.

¹⁷ US Census, 1990.

Figure 21

County Population Growth				
County	1950	1970	1998	Population Increase 1950-1998
Imperial	62,975	74,400	143,400	128%
Los Angeles	4,151,687	7,041,980	9,649,800	132%
Orange	216,224	1,421,233	2,763,900	1178%
Riverside	170,046	456,916	1,458,500	758%
San Bernardino	281,642	682,233	1,645,800	484%
Ventura	114,647	378,497	738,200	544%

Source: California DOF, Report I 47-69, I 70-80, and E-2.

4. The Issue of Economic Competitiveness

Although there are, as discussed earlier, a number of areas of strength in the region's economic base, there are areas where Southern California's competitiveness may have suffered in recent years. Whether the measure is job growth or gains in real per capita income, the Southern California economy must continue to build on its competitive advantages.

Even if today's business climate were satisfactory, the challenge of maintaining regional economic competitiveness grows greater each year. Firms in an increasing number of industries have a choice of sites around the world for the location of new and expanded facilities and investment. Firms can choose not just between Southern California and Texas but between California, Japan, Mexico, Malaysia, and European locations.

Under these circumstances what does it mean for Southern California to be competitive in attracting high paying jobs? The main determinant of industry location in the long term is whether or not a region has competitive resources. Regional policy makers need to be concerned with five major categories of

competitive resources, which are considered to be the foundations of economic growth.

- A Competitive Work Force
- Efficient Infrastructure
- Quality of Life
- The "Business Climate"
- Business Leadership

The following is a brief discussion of each of these resources.

a. Work Force Competitiveness

Business location studies consistently show that the competitiveness of an area's work force is the principal determinant of long-term location/expansion decisions. A recent survey by California Business Intelligence Service,¹⁸ for example, indicated that the basic cost-effectiveness or competitiveness of the labor force remains the fundamental concern in selecting communities for relocation or expansion. When deciding on the best location, two sets of factors are carefully investigated:

- (1) basic wage rate plus fringe benefits, and
- (2) the productivity of the workers, measured by value added per unit of time or per employee.

¹⁸ *Supplement to Los Angeles and Orange County Business Journals*, November 29, 1993, p.17A-18A.



b. Efficient Infrastructure

Economically vital and competitive regional economies must have modern and efficient physical infrastructures—roads, bridges, highways, rail, energy systems, water and sewer, telecommunications, and airport and air cargo facilities—that facilitate business expansion, relocation, trade and investment. The most attractive regions for business expansion and investment during the 21st century will be those that give increasing attention to cutting-edge infrastructures that make business operations more efficient and responsive to international economic trends and allow businesses to operate more effectively in the global economy.

Infrastructure is another key determinant of business location. Can people, goods, and information be moved quickly and at competitive costs? As the economy becomes increasingly reliant on technology advancements, telecommunications networks—which determine how fast and efficiently information can be moved—will be a critical area of infrastructure competition. Infrastructure also includes providing adequate supplies of water and energy and handling the waste products of industry and people.

Southern California's well-developed cargo handling and transportation infrastructure has

allowed the region to maintain its competitive position as a hub for land, sea, and air cargo transportation in the Pacific Rim. For the region to remain globally competitive, however, significant new investment will be required to expand capacity, in order to benefit from the strong growth in international trade expected over the next two decades.

Construction of the Alameda Corridor, which will greatly facilitate goods movement between the Ports of Los Angeles and Long Beach and the rail and distribution facilities near the City of Los Angeles is a crucial part of the required investment, as is the Alameda Corridor East, which will accelerate the movement of goods and people through the San Gabriel Valley and on to the Arizona border. But existing air/ground/sea systems in the region must also be expanded and improved in order to sustain the efficiency of operations.

Modern air transport and manufacturing logistics infrastructures are becoming increasingly important to attracting and developing internationally competitive businesses. Governments and private-sector organizations must develop global trade logistics infrastructure support facilities that will help local businesses remain competitive and assist the region in attracting foreign investment. Facilities being developed in Ohio, Texas and North Carolina exemplify the types of cooperative actions cities will have to take. Locally, for example, the San

Bernardino International Airport located at the site of California's former Norton Air Force Base, has undergone a transformation into a commercial airport that includes the development of an integrated air cargo facility, as well as warehousing facilities. Other Air Force base conversions planned in the region include former bases George in San Bernardino County and March in Riverside County. Additional airport expansions under consideration within the region include Los Angeles International Airport and Burbank Airport.

c. Quality Of Life

Quality of life is a business location determinant as well as a social goal. In fact, education and infrastructure also address social goals while affecting Southern California's competitiveness as a business location. Quality of life includes environmental amenities (such as open space, air water, etc.), adequate resources to combat crime, cultural resources, affordable housing, and efficient transportation systems. Quality-of-life variables are particularly important in attracting and retaining high value added basic industry. Since such companies are welcome virtually anywhere in the world, only areas that compete well on quality of life, as well as on business costs and infrastructure, will prove successful.

the narrower site and location-specific criteria traditionally used by mass-production manufacturing industries is still important, a Policy Studies Journal report concluded that “a good deal of evidence gathered over the last 15 years from several regions of the United States suggests that least-cost location criteria may now have given way to quality of life (QOL) considerations in industrial location preferences” A region that actively supports the development and creation of an enhanced QOL environment is strongly valued by companies seeking to locate or expand their operations. Additionally, companies recognize the importance of quality of place as a necessity to attract a skilled labor force.

d. The Business Climate

Deterioration in Southern California’s business climate was a contributing factor to the region’s relative economic decline in the early part of the 1990’s. Adverse factors in the business outlook included real and perceived anti-business policies at the state and local levels and the severity of the area’s recession, which was both deeper and more prolonged than elsewhere in the state and the country as a whole.

Rules and regulations are a factor in business location along with work force, infrastructure, and quality of life considerations. Southern

California cannot ignore the implications of permit processes on location decisions any more than the state can ignore the implications of educational funding decisions on this region’s economic competitiveness.

On the positive side, the challenge of restoring competitiveness carries within it the seeds of a solution. The combination of recession and structural change which so dimmed the outlook in Southern California has, to some extent, resulted in a positive turn for the region. The reason: economic adversity tends to force people to think in ways they never would have, and to move in directions they would never have dreamed of taking. Necessity is the mother of invention. Professor Michael Porter of Harvard, author of the influential book *The Competitive Advantage of Nations*, puts it this way:

“The fundamental lesson is that the quiet life is an enemy of competitive advantage. Industries thrive when they are forced to overcome high labor costs or a lack of natural resources, when their customers won’t accept inferior or outmoded products, when their local competitors are many and murderous, and when government offers no protection from fair competition and sets tough technical and regulatory standards.”

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— Michael Porter

¹⁹ Hart, S.L., D.R. Denison, and D.A. Henderson. 1989. “A Contingency Approach to Firm Location: The Influence of Industrial Sector and Level of Technology,” *Policy Studies Journal* 17(3):599-623.

²⁰ *Fortune*, March 12, 1990, p. 95.

Clearly, many of these conditions exist in Southern California today. Porter's findings, which are now mainstream thinking, are the basis for optimism that business climate issues can, to a large extent, be corrected. Long term planning can assist in this process by maintaining a regional, "big picture" perspective and by stirring things up; i.e., by delineating strategies for the public and private sectors to follow and, if necessary, by prodding the appropriate players into action.

e. Business Leadership

In the past, private sector leaders have been critical shapers of America's great metropolitan regions. But today, and nowhere more than Southern California, the nature of that leadership is changing. The region, like most of the country, is undergoing a profound transition from a domestic and industrial age focus to one more clearly tied to the global information economy.

At the same time some of the new economic players, often running entrepreneurial startups or family owned firms, are too small or preoccupied with daily business issues to tackle

larger issues of regional leadership. The very diversity that has helped revive the economy often also serves to make some entrepreneurs leery of involvement in larger organizations, often due to lingering cultural or linguistic differences. Others find themselves more interested simply in their own specialized industry—entertainment is a classic example—than the fate of the larger region or even the city in which they are located.

As the region begins to move beyond recovery and towards envisioning a brighter future, this lack of a cohesive leadership could have profound consequences. With many other regions enjoying far more dynamic and committed business leadership, Southern California's remaining economic elites have proved peculiarly poor at either touting their own recent success, much less presenting a compelling case for continued investment and skilled immigration from outside the region.

In the long run, particularly once the current economic growth slows, this lack of a strong business leadership could ultimately undermine many recent economic and government advances. A fractured and ineffective business leadership would also be ill equipped to mount significant initiatives in such key areas as education, infrastructure and quality of life that are critical to the region's future competitiveness.

None of this suggests that Southern California will go back to traditional forms of business organization. The region's new economy makes impractical and inappropriate the old hierarchical, big company dominated structures of the past. A new kind of business leadership—drawing from the region's increasingly diverse economic and demographic base—will be required, with new organizations less tied by static bureaucratic structures. Building this business leadership of the next century will not be easy, but remains among the most critical challenges facing Southern California in the coming century.